FARMERS' NEWSLETTER
Livestock

November 81/L-23

Income Prospects Improve

Reduced feed costs and higher hog prices this fall are improving hog farmers' returns.

However, many farmers may still not cover all costs during the rest of 1981 and into 1982. Producers generally will cover direct cash costs for the remainder of this year, but may not earn much for labor, management, and ownership.

Record Corn Crop, Lower Feed Costs

The 1981 corn crop as of October 1 was forecast at 8.08 billion bushels, up 22 percent from last year and 2 percent above the 1979 record.

Although domestic use and exports of corn will be higher in the year ahead, total use will fall short of production, boosting carryover stocks. For the current marketing year that began on October 1, corn prices will likely average $2.60 to $2.90 per bushel, below last year's $3.10.

Protein supplement prices should also moderate. The soybean crop in October was estimated at 2.1 billion bushels, up 18 percent from 1980, and the second biggest on record. Soybean meal is expected to average $170 to $195 a ton (Decatur) this marketing year, compared with $218 a year earlier.

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Principal contributor to this issue:
Leland Southard (202) 447-8636

The next livestock newsletter is scheduled for early December.

Good Management Practices Essential

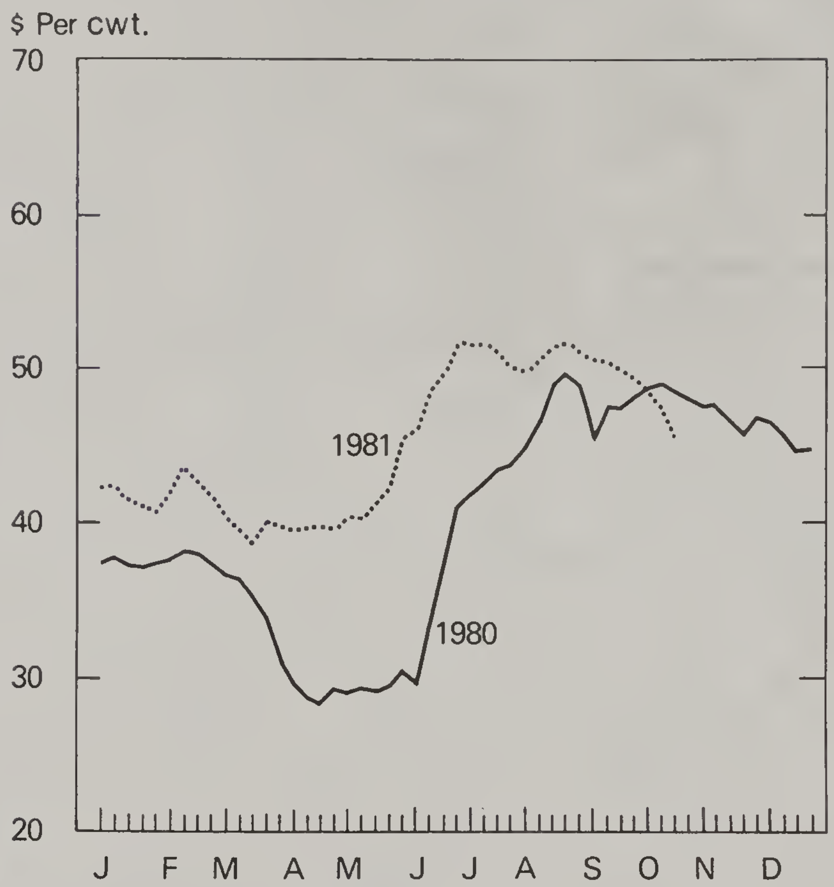
Despite lower feed costs and somewhat higher hog prices, many producers will still find conditions tight. You will need to be very alert to good management practices--disease control, input purchases, marketings, cash flow, tax planning, and feed efficiency. Continuing high interest rates will add pressure to your decisions.

Although feed costs are expected to average well below last year, higher costs for other items will be partially offsetting. Feed costs have declined as a percentage of total costs, but remain the largest single expense, so improved feed efficiency provides a good opportunity to cut costs. The average farrow-to-finish operator uses almost 6.4 bushels of corn to produce 100 pounds of hog, while the better operators use 6 bushels.

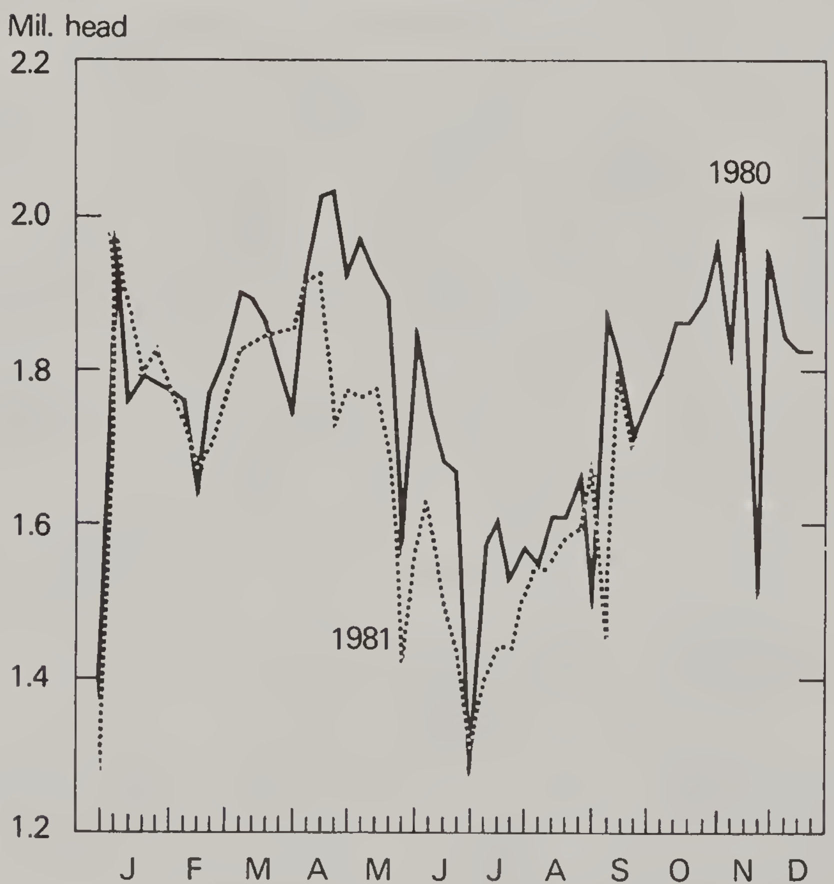
Hog Prices To Remain Steady

Hog prices are forecast to average $46 to $48 per cwt. this fall and $46 to $50 during the winter quarter. Pork production is expected to drop 8 percent from year-earlier figures in both quarters. The reduced output will be a price strengthening factor, but increasing broiler supplies and a sluggish economy will be moderating influences. Beef production will be down slightly in the fourth quarter and remain near year-earlier levels during first-quarter 1982.

HOG PRICES AVERAGE ABOVE LAST YEAR...



...AS SLAUGHTER RANGES LOWER



g producers should be aware of how the economy affects them at the grocery store. Since the dollars consumers spend for food are not as fixed as other outlays like mortgages and car payments, consumers can cope with tightened budgets by adjusting their mix of food purchases.

For example, while there's been plenty of beef, pork, and broilers over the past 2 years, the relative retail price of each has influenced shoppers' meat purchases. Meat prices change relative to each other to clear existing supplies from the market.

Feeder Pig Production Down

Hog farmers in 5 major feeder pig producing States for which data are available (Kentucky, North Carolina, Missouri, South Dakota, and Wisconsin) cut farrowings 10 percent during June-August. However, the pig crop was down only 6 percent from a year earlier because of a larger number of pigs saved per litter. These producers indicated 13 percent fewer sows would farrow during September-November than in those 1980 months.

With feeder pig prices likely to rise, feeder pig finishers should watch barrow and gilt prices closely and adjust production plans as necessary. The table on p. 3 generally indicates how much a feeder can pay for a feeder pig and still break even, given a range of corn and slaughter hog prices.

For example, if finished hogs are expected to sell for $50 per cwt. and corn costs are $2.50 a bushel, the most you can pay for a feeder pig and cover costs is about $37. Keep in mind that break-even levels vary among different operators, so that the table should be used only as a guide.

Lower corn prices in some regions give producers there a cost advantage. In mid-September, farm prices received for corn in Iowa and Illinois averged $2.46 per bushel, compared with $2.73 in Georgia and North Carolina. With this cost advantage, producers in the Corn Belt would be expected to lead the breeding herd expansion as they did during June-August.

Corn Belt hog producers who have their

own supply of corn should analyze their operations in terms of how hog feeding would raise their returns for corn as opposed to selling the corn directly on the open market.

If you own the corn you feed, its price is an opportunity cost rather than a direct outlay as it is for the producer who must buy it. If you get a lower return than anticipated for your finished hogs, you missed the opportunity to receive more for your corn by selling it.

Remember too, the farther you live from a major transportation artery, the more of a price discount you can expect for corn because of transportation costs to export terminals.

For producers who buy grain, this year's large crop presents an opportunity to deal aggressively for a good price. If you can reduce the price you pay for corn by a nickle a bushel, your hog production costs would be cut about 32 cents a cwt., if your feed conversion is about average.

The cost and return situation is not favorable enough to tempt many farmers to either expand facilities or start an operation. For example, high interest rates and building and equipment costs would add about $11 per cwt. to production costs for those just setting up a hog feeding operation.

BREAK–EVEN FEEDER PIG PRICES[1]

Corn price $ per bu.	Market hogs, $ per cwt. 40	45	50	55	60
	Feeder pigs, $ per head				
2.00	20	32	43	54	65
2.25	18	29	40	51	62
2.50	15	26	37	48	59
2.75	12	24	35	46	57
3.00	9	21	32	43	54
3.25	7	18	29	40	51

[1] Feeder pig prices consistent with break-even, all costs, given corn and market hog prices. Assumes protein and other costs at August 1981 levels.

DIRECT CASH COSTS DECLINE IN 1981[1]

	Spring	Summer
	$ per cwt. of sales	
Feed	33.87	31.00
Hired labor	1.96	1.96
Other production items	9.90	9.90
Interest on operating capital	1.46	1.53
General overhead, hog share	2.63	2.63
Total	49.82	47.02

[1] Average costs for U.S. farrow-to-finish operators.

Because of high interest rates you should examine your cash flow pattern to avoid unnecessary short-term borrowing.

You can expect lenders to have higher loan qualifications than in the past due to general economic uncertainty and the financial losses suffered by hog producers over the past 2 years.

Tax Planning

Emerging from 2 rough income years, producers may benefit from recent changes in the tax laws. The maximum tax rate on capital gains has been reduced to 20 percent for all transactions completed after June 9, 1981. Capital gains earned before that date will be taxed at just below 28 percent.

Sales of breeding stock kept for 12 months or longer qualify for taxing as capital gains. Therefore, you can keep a gilt, breed her and wean the pigs, then sell her as a young sow just over a year in age at a very small discount from barrow and gilt prices--with the proceeds taxed at the lower capital gains rate rather than the income rate.

While there's currently little incentive to invest in new production facilities, the new tax law--designed to spur business investment--speeds up the tax writeoffs of farm buildings, machinery, and breeding stock to allow you to recover your costs faster.

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NEW TAX LAW PROVIDES FASTER WRITEOFF PERIODS[1]

Farm Asset	Depreciation period old ADR	new ACRS
	Years	
Farm machinery, equipment, grain bins, and fences	8-12	5
Breeding cattle	5.5-8.5	5
Breeding hogs	2.5-3.5	3
Farm buildings	20-30	15
Single-purpose structures	–	5

[1] The old system was based on an item's actual useful life or on the Asset Depreciation Range (ADR); the new system is the Accelerated Cost Recovery System (ACRS).

This will allow you to replace old, inefficient equipment sooner than under the previous law and help improve your efficiency. Previously, you had to depreciate income-producing assets over their useful life.

The new, simplified Accelerated Cost Recovery System has replaced the old method for determining useful life. It applies to all assets placed in service after 1980. It's easier to use, and in most cases, the writeoff periods are shorter.

The table above compares depreciation periods for various farm assets under both systems. Of special interest to hog producers is the 5-year writeoff period for single-purpose buildings.

The new law also eliminates the salvage value deduction, which means you no longer have to subtract an item's salvage value when you're calculating depreciation deductions.

With the tax law changes, you'll be able for the first time to write off farm equipment and breeding stock as a business expense in the first year. For 1982 and 1983, you can deduct qualified purchases up to $5,000; for 1984 and 1985, up to $7,500; and for 1986, up to $10,000.

Another change that may affect your plans is that the investment tax credit has been liberalized. However, if you choose to write off farm equipment and breeding stock as a business expense, you lose the investment tax credit on these items.

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